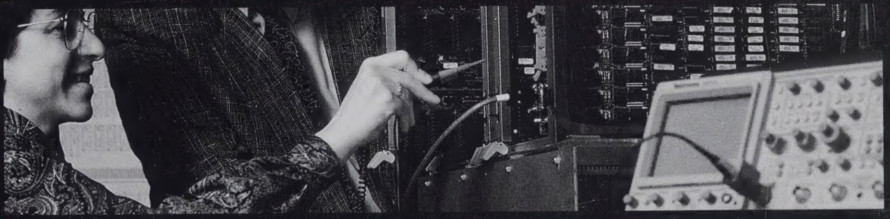
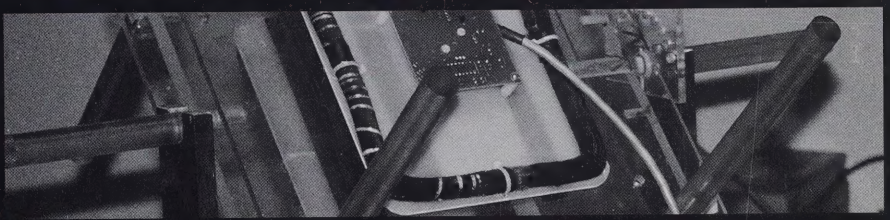
VENCAP EQUITIES



ALBERTA LTD.



ANNUAL REPORT

1989

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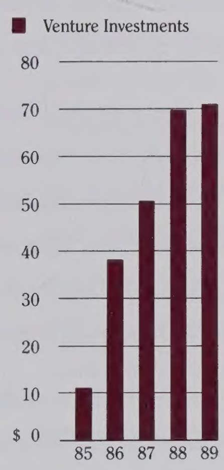
Vencap Equities Alberta Ltd. is a venture capital company owned by Canadians and established to operate profitably. Vencap serves the long-term economic interests of Alberta by assisting in the creation of new Alberta-based companies and in the growth of existing businesses.

FIVE-YEAR FINANCIAL HIGHLIGHTS

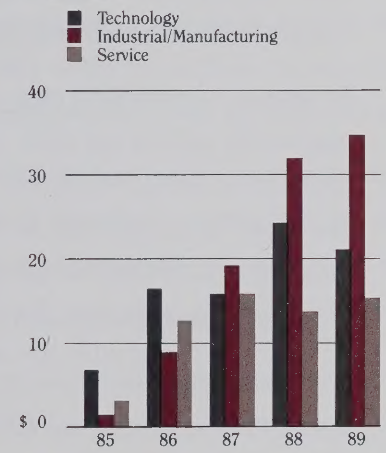
(Millions of Dollars, except per share and share price amounts)

Vencap Equities Alberta Ltd.

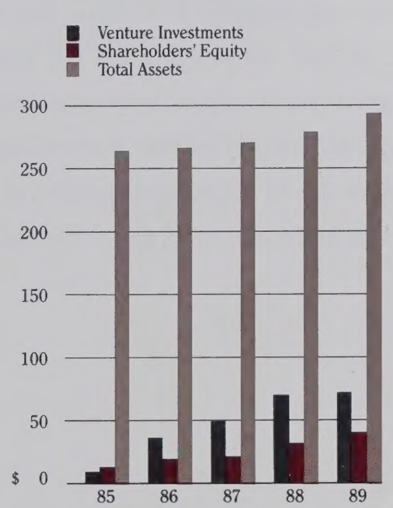
	March 31				
	1989	1988	1987	1986	1985
Revenues	31.3	22.7	24.1	22.8	25.6
Net Income	9.5	7.9	8.3	7.6	7.8
Earnings Per Share Fully Diluted	$0.48	$0.44	$0.45	$0.41	$0.41
Venture Investments	71.1	69.9	50.8	38.2	11.1
Total Assets	294.7	279.0	271.2	266.8	264.1
Shareholders' Equity	40.1	30.3	21.4	17.9	12.4
Net Asset Value Per Share Fully Diluted	$3.45	$3.04	$2.67	$2.53	$2.31
Share Price	$2.25	$1.65	$2.00	$2.05	$1.75



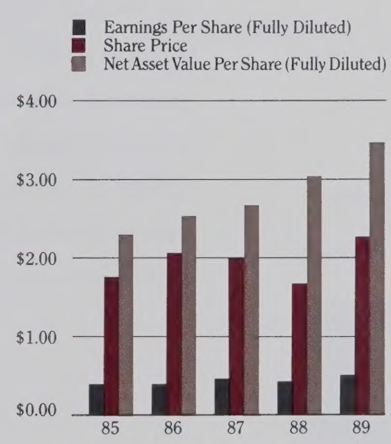
Venture Investments
March 31
(Millions of Dollars)



Venture Investments by Industry Sector
March 31
(Millions of Dollars)



Venture Investments vs. Shareholders' Equity vs. Total Assets
March 31
(Millions of Dollars)



Earnings Per Share (Fully Diluted) vs. Share Price vs. Net Asset Value Per Share (Fully Diluted)
March 31
(Millions of Dollars)

For the year ended March 31, 1989, Vencap's revenues increased to $31.3 million from $22.7 million. Net income increased to $9.5 million from $7.9 million, an increase of 19.5%.

We are pleased to report to you on a year of major change and progress for Vencap Equities Alberta Ltd. We have emerged from the formative years, establishing Vencap as a profitable and viable venture capital fund, and are now preparing for the 1990s.

Significant management and staff changes occurred throughout the year. In January, 1989, Mr. Sandy Slator was appointed President and Chief Executive Officer of Vencap, replacing Mr. Derek Mather. Mr. Mather was instrumental in building Vencap during its formative years and we wish him well in his future endeavors. A major reduction in staff levels has been recently effected, going from a total staff of 24 down to 18. We have instilled a new philosophy, method of operation and style of business and, we believe, are witnessing a new sense of accomplishment.

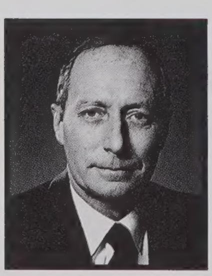
Reflecting the entrepreneurial-driven approach in place at Vencap is the recent improvement in the quantity and quality of new investment inquiries. We are responding to these inquiries, marshaling our human resources to deal with them quickly.

In addition to responding more effectively to those who approach Vencap, we are aggressively seeking out those investment opportunities that may not otherwise approach our offices. Not only do we wish to invest in local opportunities, we wish to find those businesses that, for logical and rational business reasons, could be brought to Alberta. In the two instances where we have taken this approach—Synerlogic Inc. from Ottawa and Westronic Inc. from Vancouver—we have been highly successful.

We have identified several directional thrusts to be pursued in the upcoming months, among them to increase our activity in early-stage investments, particularly in the medical technology area. Vencap Medical Ventures was formed in March, 1989, and is focusing on investments related to medical devices, technologies and services. We have chosen the medical area for a number of reasons. The Alberta Heritage Foundation for Medical Research is committing approximately $40 million annually toward medical research in this province. As well, the province has two internationally respected medical schools where a great deal of research is being conducted. We are extremely pleased to have attracted Dr. William A. Cochrane, former Chief Executive Officer of Connaught Laboratories, to devote a significant portion of his time to Vencap Medical Ventures. Two of our investment staff are concentrating on this specific area as well.

Donald A. Carlson

Chairman



Basic earnings per share improved to $2.16 from $1.80 and fully diluted earnings per share increased to $0.48 from $0.44. Basic net asset value per share rose to $9.12 from $6.86, while fully diluted net asset value per share increased to $3.45 from $3.04.

Vencap continues to pursue investment opportunities in expansion-oriented mature businesses that have the potential to compete on a national or international scale. By providing the equity capital necessary to fund their growth and expansion, Vencap can be a catalyst for building Alberta-based companies into major entities. We are highly confident that provincial economic growth rates will be above normal for the next few years, fueled, in part, by the major resource projects that are currently contemplated. Vencap will be a participant in this growth, investing in emerging and existing businesses that are poised to benefit from increased economic activity.

We wish to express appreciation for the support of the Vencap staff who have worked diligently, on your behalf, to build a successful enterprise. We also express our thanks to Mr. Fred Sparrow, who will not be standing for re-election to your Board of Directors at this year's annual meeting. Mr. Sparrow was a founding director of Vencap and his counsel and guidance have been most helpful and appreciated.

Our success also depends on the success of the companies in which we invest. We are proud of the 28 companies currently within our portfolio and extend our sincere appreciation for the efforts and contributions by their managements and staffs.

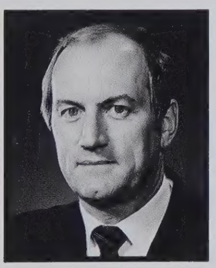
We are entering a period of challenge and promise. We are approaching this future with ambitious plans, working on an investment strategy that will inject venture capital into a greater number of new and expanding enterprises. We are confident that our strategies and objectives will result in an exciting, profitable and highly successful corporation of which we will all be proud.

On behalf of your Board of Directors,

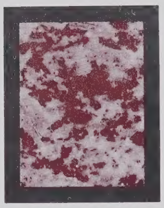
Donald A. Carlson
Chairman

R.A. (Sandy) Slator
President and Chief Executive Officer

R.A. (Sandy) Slator
President and Chief Executive Officer



Vencap's investment cycle extends beyond one year



Vencap's investment cycle involves using cash to purchase equity in high-risk ventures, building value in the ventures, and divesting to return to cash. It is a process that is normally measured in years, not months.

Vencap entered the year with cash and near-cash funds of $208.1 million available for venture investments, and $69.9 million of venture investments in 27 companies.

The available cash is invested in marketable securities, consisting of low-risk, high-quality bonds and preferred shares. This portfolio earned $17.9 million during the year, for a weighted average return of 9.3%.

	Number of Companies	Millions of Dollars
March 31, 1988	27	$69.9
Investments—companies new to portfolio	4	20.1
—share-for-share exchanges	2	5.5
—additional rounds of financing to existing companies	10	12.1
Divestitures	4	(27.7)
Return of capital	3	(0.5)
Decrease in allowance for unrealized gains and losses		0.5
Permanent impairment of value	2	(8.8)
March 31, 1989	28	$71.1

Five companies added to venture investments

Vencap's staff investigated more than 450 potential venture investment opportunities in the last 12 months. Four investments totaling $20.1 million were made in companies which were not previously in our portfolio. The fifth, a $0.5 million investment in Computalog Gearhart Ltd., is the result of a share-for-share exchange for our holding in GEOTECHnical resources ltd.

Ten existing venture investments received additional financing

A great deal of time is spent each year working with the management of the venture investments to enhance the value of these companies. Additional funding is often required. This year, $12.1 million was invested in subsequent rounds of financing with 10 companies in which we had previously invested. Other venture affiliates repaid $0.5 million previously invested.

Venture investments are high risk. The venture portfolio companies normally require all available cash to meet the demands of growth. Vencap did, however, receive interest and dividend income during the year from its venture investments amounting to $4.6 million, for a 5.2% annualized return.

Four divestitures and two write-downs occurred, for a net gain of $9.1 million

Vencap sold its interests in four companies, and recorded permanent impairments of capital in two venture affiliates.

A $16.5 million gain from the sale of our investment in Sherritt Gordon Limited, purchased earlier in the year, had a major impact on earnings. Our investment in Synerlogic Inc., purchased in 1984, was also sold, realizing a gain of $2.0 million. The other two divestitures were share exchanges—the Computalog Gearhart/GEOTECHnical resources ltd. exchange discussed previously, which resulted in a $0.5 million loss, and a $5.0 million transaction in which shares of Stuart Olson Construction Ltd. were exchanged for shares of The Churchill Corporation.

ACT Computer Services Ltd.'s expansion plans were not successful. The company's major customer is currently providing financial support and day-to-day management while the company's operating and financial affairs are being reorganized. We are awaiting their restructuring proposal.

Vencap's investment in Biotechnica Canada Inc. has been written down by $8.0 million as many of its major biotechnology research initiatives have not

materialized into commercial ventures. Biotechnica Canada Inc. has agreed to sell certain of its proven biotechnology sciences to purchasers who are committed to continuing research in Alberta.

The situations encountered by ACT Computer Services Ltd. and Biotechnica Canada Inc. had been previously anticipated through the allowance for unrealized losses which is provided against venture investments and shareholders' equity. The value of the investments has been permanently impaired and is reflected as an $8.8 million charge against income for the year.

Allowance for unrealized losses decreased slightly

The venture portfolio is constantly evaluated to determine what allowances, if any, should be made in anticipation of potential losses. The allowance for net unrealized losses on venture investments reflected through shareholders' equity has decreased $0.5 million net of the charge to income for amounts previously provided against ACT Computer Services Ltd. and Biotechnica Canada Inc.

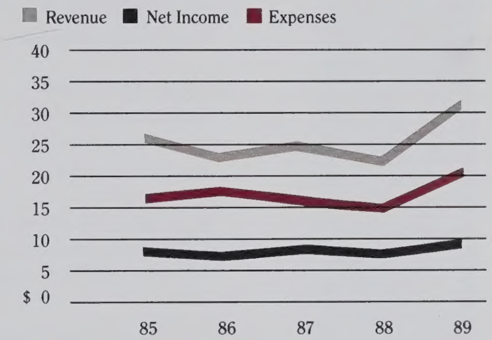
Expenses rose $4.9 million, reflecting the participative nature of the Province of Alberta's loan and the costs of reorganization

Vencap's expenses rose to $20.4 million from $15.5 million a year earlier. The provincial loan interest for 1989 is $10.9 million, an increase of $3.7 million from 1988, reflecting the participative nature of the provincial loan. Financing costs associated with the convertible debentures remained unchanged at $4.8 million.

Expenses incurred on ongoing operations remained at $3.5 million.

Costs of $1.2 million were incurred to effect an internal reorganization, including financial settlements arranged upon the departure of certain management and staff.

Net income rose 19.5% to $9.5 million from $7.9 million. Fully diluted earnings per share rose to $0.48 from $0.44 per share.

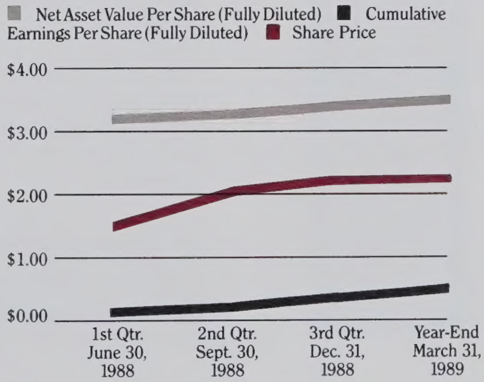


Revenue vs. Net Income vs. Expenses
March 31
(Millions of Dollars)

Vencap's share price increased 36% in one year

Our common share price recovered during the year to close at $2.25, up 36% from the March 31, 1988, closing of $1.65. The share price increase reflects continued strong growth in shareholders' equity (32.6%) and the 19.5% increase in net income. Given that the high-risk nature of venture investments results in volatile earnings, management's long-range focus is on maintaining the strong growth in net asset value attributed to each share.

Vencap closed the year with $222.4 million of cash and near-cash, an increase of $14.3 million. The venture portfolio rose to $71.1 million invested in 28 companies. We are dealing with certain difficult issues in a number of the venture investments but, more importantly, are concentrating on building value in the majority of the venture investment portfolio. That value will be realized in future years. The quality of potential new investments is high. We expect another exciting year ahead.



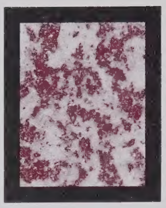
Net Asset Value Per Share (Fully Diluted) vs. Cumulative Earnings Per Share (Fully Diluted) vs. Share Price

March 31, 1989
(Unaudited)

Name of Company	Major Products or Services	Calendar Year First Invested	Stage of Investment at Time of First Investment	
			Early Stage	Expansion
INDUSTRIAL/MANUFACTURING VENTURES:				
ALPECO	Oil field equipment.	1987	X	
AMPTECH Corporation	Precision injection-molded plastics.	1986		X
The Churchill Corporation	Industrial holding company.	1986		
Clarepine Industries Inc.	Industrial mining & manufacturing.	1986		
Corod Industries, Inc.	Continuous & conventional sucker rod.	1985		X
H.P.I. Beverages Ltd.	Independent bottler & canner of beverages.	1988		
Intercane World Corporation Ltd.	Proprietary sugarcane processing equipment.	1986	X	
Lakeside Farm Industries Ltd.	Integrated farming & processing.	1985		X
Mountain Minerals Co. Ltd.	Industrial minerals mining & processing.	1985		X
Nascor Incorporated (formerly Cano)	Energy-efficient building structures.	1985		X
Sherritt Gordon Limited	Specialty metals & fertilizer.	1988		
Stuart Olson Construction Ltd.	General contractor.	1987		X
Net allowance against industrial/manufacturing ventures				
Total Industrial/Manufacturing Ventures			2	6
SERVICE VENTURES:				
AgriTrends Research Inc.	Agricultural consulting.	1988	X	
Computalog Gearhart Ltd.	Energy sector service company.	1989		
Peters & Co. Limited	Full-service investment dealer.	1986		X
PTI Group Inc.	Food services & camp facilities.	1984		
Relax Development Corporation Ltd.	Full-service economy hotels.	1985		X
Stanley Engineering Group Inc.	Consulting engineering.	1985		X
Western Cartage & Storage (1962) Ltd.	Household goods moving.	1985		
Net allowance against service ventures				
Total Service Ventures			1	3
TECHNOLOGY VENTURES:				
ACT Computer Services Ltd.	Computer services & products.	1985		X
BIOSYS	Biological pesticides.	1987	X	
Biotechnica Canada Inc.	Agricultural biotechnology.	1985	X	
BioTechnica International, Inc.	Broad-based biotechnology.	1985	X	
D & S Petroleum Consulting Group Ltd.	Petroleum industry software products.	1985		X
GEOTECHnical resources ltd.	Petroleum laboratory & testing services.	1985		X
SN Hanson Group Enterprises Ltd.	Metallurgical engineering.	1984		X
IatroMed, Inc.	Electrostimulation medical devices.	1988	X	
IDACOM Electronics Ltd.	Data communications protocol testers.	1985		X
Myrias Research Corporation	Parallel processing supercomputers.	1987	X	
SPURT Investment Fund I	Technology venture capital fund.	1985	X	
Synerlogic Inc.	Software & information system consulting.	1984		X
Westronic Inc.	Remote monitoring & control systems.	1985		X
Net allowance against technology ventures				
Total Technology Ventures			6	7
TOTAL VENTURE PORTFOLIO BALANCE			9	16

Stage of Investment at Time of First Investment			Activity During Fiscal 1989						
			Additional Investments	Disposition of Investments During Fiscal 1989			Decrease (Increase) in Allowance for		Gains (Losses)
Acquisition Related	Special Situations	Balance March 31, 1988	During Fiscal 1989	Sale	Return of Capital	Permanent Impairment	Unrealized Gains and Losses	Balance March 31, 1989	on Disposition
		$ 1,275,350	$ 3,043,971					$ 4,319,321	
		$ 1,800,112						$ 1,800,112	
X		$ 9,000,000	$ 5,000,000					$14,000,000	
X		$ 5,000,000						$ 5,000,000	
		$ 625,429						$ 625,429	
X			$ 850,000					$ 850,000	
		$ 2,800,000	$ 500,000					$ 3,300,000	
		$ 5,000,000						$ 5,000,000	
		$ 2,650,000			$100,000			$ 2,550,000	
		$ 1,500,000						$ 1,500,000	
	X		$18,125,000	$18,125,000					$16,502,400
		$ 5,000,000		$ 5,000,000					
		$34,650,891						$38,944,862	
		$ (2,727,825)					$ (1,656,570)	$ (4,384,395)	
3	1	$31,923,066						$34,560,467	
			$ 200,000					$ 200,000	
	X		$ 512,500					$ 512,500	
		$ 1,110,682			$ 4,736			$ 1,105,946	
X		$ 2,500,000	$ 405,000		$375,000			$ 2,530,000	
		$ 7,000,000						$ 7,000,000	
		$ 2,029,218						$ 2,029,218	
X		$ 1,000,000	$ 1,494,000					$ 2,494,000	
		$13,639,900						$15,871,664	
							$ (550,340)	$ (550,340)	
2	1	$13,639,900						$15,321,324	
		$ 947,500				$ 847,500		$ 100,000	
		$ 651,253	$ 404,031					$ 1,055,284	
		$ 7,500,000	$ 3,000,000			$8,000,000		$ 2,500,000	
		$ 4,952,867						$ 4,952,867	
		$ 2,000,000						$ 2,000,000	
		$ 1,100,000		$ 1,100,000					$ (587,500)
		$ 1,000,000						$ 1,000,000	
			$ 918,090					$ 918,090	
		$ 1,675,000	$ 48,900					$ 1,723,900	
		$ 3,500,000	$ 2,499,994					$ 5,999,994	
		$ 69,700						$ 69,700	
		$ 3,218,080	$ 265,187	$ 3,483,267					$ 2,057,497
		$ 2,025,158	$ 423,677					$ 2,448,835	
		$28,639,558						$22,768,670	
		$ (4,272,176)					$ 2,706,911	$ (1,565,265)	
0	0	$24,367,382						$21,203,405	
5	2	$69,930,348	$37,690,350	$27,708,267	$479,736	$8,847,500	$ 500,001	$71,085,196	$17,972,397

IatroMed has obtained an exclusive, world-wide licence for the medical applications of its technology, which will result in electrostimulation devices being used for soft tissue and musculoskeletal repair.



Vencap's September, 1988, investment in IatroMed, Inc. is indicative of Vencap's efforts to attract new technology and new businesses to Alberta. Based in Phoenix, Arizona, IatroMed came to Vencap's attention during the year as it sought to find the means to commercialize medical technology being developed at the University of Calgary.

That technology involves the treatment of damaged, diseased or worn out human tissue through the use of electrostimulation. IatroMed's technology is based upon direct communication with cells utilizing electromagnetic fields. Tissue and bone repair is effected when these fields cause movement of the specific types of ions necessary to promote healing.

A team of medical and engineering researchers in Calgary has dedicated the last several years to developing technology for soft tissue healing applications while IatroMed's focus has been in the area of bone healing. Vencap's investment has facilitated the collaboration of these two groups and led to the creation of an Alberta company, BRM Biotech Ltd.

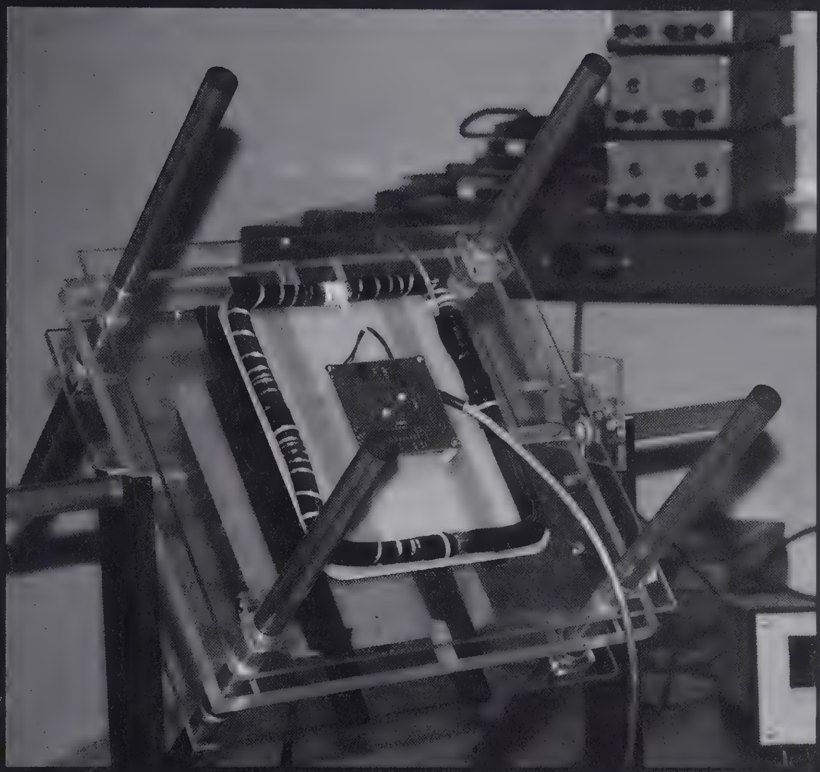
With its U.S. location providing easier access to a large and important market, IatroMed will undertake eventual commercialization and marketing of electrostimulation devices.

The implications are enormous—a non-surgical solution for the aging, degeneration or injury of bone and soft tissue. The market potential is enormous as well, exceeding $400 million in the United States for bone-healing applications alone. Added to this is the market potential that exists for the soft-tissue applications being developed in Calgary.

In making its investment in IatroMed, Vencap has contributed $750,000 U.S. ($918,090 Cdn.) of a total $3 million U.S. investment that involves four other venture capital funds—U.S.-based funds specializing in medical technology investing. The experience to be gained from the association with these funds will enhance Vencap's ability to identify and pursue other emerging health-care technologies and to provide the equity funding and business expertise required to bring these technologies to market.

Vencap Medical Ventures has been established specifically with this intent and will focus on health-care related developments involving cost-effective medical devices and equipment, care of the elderly, and products and services directed to out-of-hospital care, including diagnostics.

Vencap continues to pursue investment opportunities in early-stage situations unrelated to the medical seed capital arena, particularly in those industries that have been identified as offering future growth potential for Alberta.



IATROMED, INC.

Allan M. Weinstein,

Ph.D.

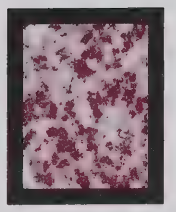
President and Chief

Executive Officer

IatroMed, Inc.

"AFTER A CENTURY OF ANECDOTAL REPORTS AND DECADES OF SCIENTIFIC RESEARCH IN THIS AREA, WE CAN NOW PREDICTABLY EFFECT CHANGES IN HUMAN CELLS TO PROMOTE HEALING."

In 1988, Myrias unveiled the SPS-2 family of supercomputers and, in 1989, has announced the sale of its first system—to the U.S. Department of Defense. This order represents first-time revenues for the company of $1.5 million.



Supercomputers are as significant to pioneering scientific research today as calculus was to Isaac Newton. In three seconds, they solve problems that take six months on a personal computer and two centuries on a hand-held calculator. This kind of computing power is enabling the development of a third branch of science, where physical phenomena are modelled on computers. To test car safety, manufacturers use supercomputer simulations rather than crash expensive models into a wall. Airplane manufacturers undertake complex fluid dynamics computer simulations to augment expensive wind tunnel testing and design better aircraft.

The seemingly insatiable demand for raw computing speed has not come inexpensively; supercomputers cost $20 million and more. Most of today's supercomputers are highly refined tools based on an old concept of problem solving. For the most part, they are *sequential* problem-solvers, doing one calculation at a time. These are computing brutes; extremely complex, difficult to optimize and very expensive to maintain. Many industry observers agree that an emerging technology, called *parallel processing,* using hundreds of processors to work on a problem at the same time, threatens to make current supercomputing sequential technology obsolete.

Myrias Research Corporation aims to have its supercomputer become the first widely accepted parallel processing product in the supercomputer market.

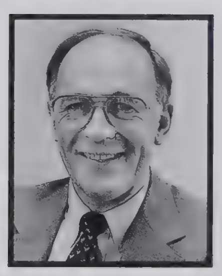
Earlier this year, Myrias announced its first scalable parallel supercomputer—the SPS-2—the result of seven years' work and $27 million in funding, $6 million of which has been invested by Vencap. Myrias' SPS-2 is among the most powerful supercomputers in the world, with enough memory to store one million pages of single-spaced typescript and able to perform complex calculations at blinding speeds.

As Myrias enters the supercomputer market this year, it faces a formidable challenge. The $1 billion supercomputer market is a strategically important one involving not only intense competition, but national involvement. Many governments see supercomputer technology as critical to the development of other technology—biotechnology and military science, for example—and are pouring funds into their own supercomputer developers.

1989 is a watershed year for Myrias—the year it finds out how good the market thinks its product is. The company has worked hard in the last year to strengthen its management and marketing teams. It has considerable ongoing support from its investors and the Government of Alberta, which has financed the construction of a large system for customer testing. There is little doubt that when people think of venture capital—risk capital—they think of a company like Myrias, aggressively venturing to win a strong position in the highest of hi-tech markets.

MYRIAS RESEARCH CORPORATION

F.T. (Ted) White,
Chairman and Chief
Executive Officer
Myrias Research
Corporation



Peter A. Gregory,
President
Myrias Research
Corporation

"THE WORLD WILL NEVER BE THE SAME. SOON EVERY INDUSTRY, EVERY SCIENCE, EVERY WALK OF LIFE WILL IN SOME WAY BE TOUCHED BY SUPERCOMPUTING."*

* *Doyle Knight, Director, John von Neumann National Computer Centre, Princeton, N.J., Time, March 28, 1989*

The growing demand for private-label carbonated beverages and custom packaging of beverage products has increased H.P.I.'s market opportunities.

Alberta produces only five per cent of the consumer products enjoyed by its population. While the focus of recent years has been toward economic diversification and expansion of the province's technological horizons, continued development of the consumer product industry and manufacturing sector will generate significant economic growth.

H.P.I. Beverages Ltd. is a case in point. Through geographic expansion and acquisition, Edmonton-based H.P.I. intends to become the largest custom packager of carbonated beverages in an industry that has known a century of consistent growth and that continues to grow at a rate of six per cent annually.

H.P.I.'s market niche is that part of the beverage industry not served by major brands—providing in-store private-label brands of carbonated beverages. H.P.I. presently packages the private-label beverage lines for the three largest food chains in western Canada. In only five years, its revenues have almost tripled as a result of the market penetration it has achieved.

Retail soft drink sales in western Canada generate $600 million annually. Future growth will position H.P.I. to become a major contender in this market. Vencap's 1988 investment in the company is enabling it to pursue that opportunity. H.P.I.'s first step in that direction was achieved with the April, 1989, acquisition of a Vancouver-based bottling facility, which provides H.P.I. with entry into B.C.'s lower mainland market. The additional production facilities obtained in the acquisition fit H.P.I.'s strategy for increasing volumes and expanding product lines.

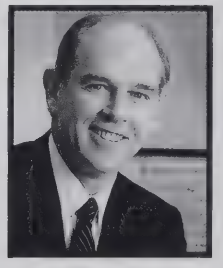
Soft drinks are the fastest selling items in food stores and any high volume food chain is a potential market for carrying its own brand of beverage. The demand for private-label carbonated beverages is burgeoning as an increasing number of retailers look to them for the additional revenues that can be generated while promoting their own image.

By combining state-of-the-art equipment with cost-conscious production operations, H.P.I. can become the largest, most efficient custom packager in western Canada.

In these days of hi-tech innovations, H.P.I. typifies the opportunities available in low-tech industries.

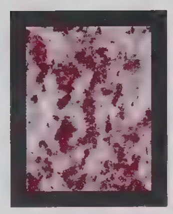
H.P.I. BEVERAGES LTD.

Grant H. Smith,
President and
Chief Executive
Officer
H.P.I. Beverages Ltd.



"THE BEVERAGE INDUSTRY IS HUGE — AND GROWING. THERE ARE ENORMOUS OPPORTUNITIES FOR US TO BECOME THE DOMINANT CUSTOM PACKAGER OF CARBONATED BEVERAGES IN WESTERN CANADA. WE'RE TAKING ADVANTAGE OF THEM."

The focus of most venture capital funds in North America traditionally has been toward hi-tech and new technology developments. Companies in service-related industries are now high on the list of investments these funds are pursuing as opportunities in technology-related enterprises diminish.



Without exception, all aspects of business and industry operate in highly competitive environments. Among the most challenging, however, are those driven by a service orientation, where the quality of attention given to customers can be a deciding factor for a company pursuing success.

Although the service industry traditionally has not been a specialty of many venture capital funds, Vencap's capital base is of sufficient size to have included this sector among the corporation's investment interests since inception.

Edmonton-based Western Cartage & Storage (1962) Ltd. typifies the potential that exists for Alberta-based companies to be built into major Canadian companies—in the case of Western, a major Canadian transportation company.

Since 1983, the company has acquired Hill Security Van Lines in western Canada, Johnston Moving & Storage in British Columbia, Dixon Van Lines in Ontario and Quebec and, most recently, Wallace Moving and Storage in the Maritimes. In addition to these acquisitions, Western started Security Van Lines in Ontario.

With its March acquisition of Wallace Moving, Western is now among the three largest moving companies in Canada with established operations in the major centres of nine provinces and the Northwest Territories. Continued expansion through acquisition is planned to strengthen Western's position in certain geographic markets. As well, the Western group represents the largest single shareholder in Allied Van Lines Ltd. and accounts for nearly one-third of the Allied Van Lines business in Canada.

The remarkable growth that Western has achieved in only five years is reflected in its financial performance; revenues in 1989 will be eight times those of 1983.

In addition to moving household goods locally, across Canada and internationally, Western and its more than 500 full-time employees undertake the specialized moving requirements of heavy equipment, offices and electronic equipment. Ongoing deregulation of the transportation industry will also open up new markets for Western by enabling it to transport a greater variety of commodities. The ability to transport more than household goods will generate additional revenues, particularly during off-season periods when household moving activity decreases.

Recognizing the service orientation inherent to its business success, Western continues to enhance its competitive advantage. A fleet of newly designed trailers was recently added to meet market demands for improved customer satisfaction and operating efficiencies. As well, Western has initiated an across-Canada customer satisfaction program unequalled in the moving industry.

WESTERN CARTAGE & STORAGE (1962) LTD.

Richard J. LeLacheur,
President and Chief
Executive Officer
Western Cartage &
Storage (1962) Ltd.

"DEREGULATION OF THE INDUSTRY TOLD ME ONE THING — BECOME NATIONAL OR SUFFER THE CONSEQUENCES. SIMPLE AS THAT. AND THERE WAS NO TIME TO WASTE. SITTING STILL WOULD HAVE BEEN A VERY HIGH RISK."

Management's Reporting Responsibility

The accompanying financial statements of Vencap Equities Alberta Ltd. and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of the corporation, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a comprehensive system of internal accounting controls. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies which govern ethical business conduct.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its audit committee, consisting solely of outside directors. The audit committee reviews the corporation's annual financial statements and recommends their approval to the Board of Directors. The shareholders' auditors have full access to the audit committee, with and without management being present.

The financial statements have been examined by the shareholders' auditors, Price Waterhouse, Chartered Accountants, and their report is presented herein.

R.A. (Sandy) Slator
President and Chief Executive Officer

Ian T. Morris
Chief Financial Officer

Auditors' Report

April 20, 1989

To the shareholders of
Vencap Equities Alberta Ltd.:

We have examined the balance sheet of Vencap Equities Alberta Ltd. as at March 31, 1989 and the statements of income, changes in financial position and changes in shareholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse
Chartered Accountants
Edmonton, Alberta

BALANCE SHEET

The balance sheet is a snapshot at a point in time of the measurable dollar value of assets and liabilities.

ASSETS

Marketable securities, maturing both within and after one year, are funds awaiting venture opportunities.

Venture investments reflect original costs, adjusted for all anticipated losses and, within very strict guidelines, anticipated gains.

LIABILITIES AND SHAREHOLDERS' EQUITY

Accrued interest payable is the interest due to the Province of Alberta, paid June 30 of each year, and the accrued interest on the convertible debentures.

The convertible debentures are repayable in 1998, while the first significant principal repayment on the Province of Alberta loan is due in 2003.

Net asset value per share is one indicator of share price.

	March 31	
	1989	1988
	(Thousands)	
Assets		
Current assets:		
Cash	$ 316	$ 427
Accounts receivable (Note 2)	4,747	4,997
Income taxes recoverable	–	426
Marketable securities, maturing within one year (Note 3)	86,623	76,598
	91,686	82,448
Marketable securities, maturing after one year (Note 3)	130,763	125,641
Venture investments (Note 4)	71,085	69,930
Other assets (Note 5)	1,151	1,017
	$294,685	$279,036
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 615	$ 435
Accrued interest payable	12,035	8,330
Income taxes payable	1,899	–
	14,549	8,765
Long-term debt:		
Convertible debentures (Note 6)	40,000	40,000
Province of Alberta loan (Note 7)	199,995	199,996
	239,995	239,996
Shareholders' equity	40,141	30,275
	$294,685	$279,036
Net asset value per common share (Note 10):		
Basic	$9.12	$6.86
Fully diluted	$3.45	$3.04

Approved on Behalf of the Board:

_______________ Director   _______________ Director

The statement of income measures revenues and expenses recorded during the year.

Revenue is derived from venture investments and marketable securities.

Operating costs represent the period costs of investigating opportunities, investing, and then working with our venture investments.

Earnings per share is another indicator of share price.

	Year Ended March 31 1989	1988
	(Thousands)	
Venture investments:		
Interest and dividend income	$ 4,575	$ 2,361
Gains on disposition	17,972	—
Permanent impairment of value	(8,847)	—
Marketable securities:		
Interest and dividend income	17,886	19,525
Gains (losses) on disposition	(274)	776
	31,312	22,662
Expenses:		
Interest on Province of Alberta loan	10,864	7,159
Interest on debentures	4,800	4,800
Operating	3,556	3,543
Reorganization	1,228	—
	20,448	15,502
Income before income taxes	10,864	7,160
Provision for (recovery of) income taxes (Note 9)	1,378	(775)
Net income	$ 9,486	$ 7,935
Earnings per common share (Note 10):		
Basic	$2.16	$1.80
Fully diluted	$0.48	$0.44

The statement of changes in financial position reflects changes in assets, liabilities, revenues and expenses, from a cash viewpoint.

This statement is broken into three categories—cash flow from operations, cash flow related to financing, and cash flow used for investments.

	Year Ended March 31 1989	1988
	(Thousands)	
Cash provided from operations:		
Net income	$ 9,486	$ 7,935
Items not involving the outlay of funds—		
Depreciation	132	76
Gains on disposition of venture investments	(17,972)	–
Losses (gains) on disposition of marketable securities	274	(776)
Permanent impairment of value of venture investments	8,847	–
	767	7,235
Decrease (increase) in income taxes recoverable (payable)	2,325	(497)
Decrease in accounts receivable	249	3,347
Increase (decrease) in accrued interest payable	3,705	(1,023)
Other	(85)	(147)
	6,961	8,915
Cash used for financing:		
Common shares	192	44
Class B preferred shares	(72)	(7)
Province of Alberta loan	1	1
	121	38
Cash used for investments:		
Venture investments, net of return of capital	37,210	18,131
Proceeds on disposition of venture investments	(45,680)	–
Marketable securities, net	15,421	(8,947)
	6,951	9,184
Decrease in cash	(111)	(307)
Cash, beginning of year	427	734
Cash, end of year	$ 316	$ 427

Shareholders' equity records the share transactions occurring during the year, tracks the accumulation of earnings over time, and reflects an allowance for unrealized gains and losses on venture investments.

This allowance anticipates possible future gains or losses on venture investments to ensure that the shareholders are able to measure the potential downside associated with these high-risk investments.

	Class B preferred shares	Common shares	Retained earnings	Allowance for unrealized gains and losses on venture investments	Total
			(Thousands)		
Balance, March 31, 1987	$ 535	$4,040	$24,802	$(7,988)	$21,389
Net income	–	–	7,935	–	7,935
Decrease in allowance for unrealized gains and losses on venture investments	–	–	–	988	988
Share transactions:					
Issued	23	–	–	–	23
Repurchased	(16)	(44)	–	–	(60)
Converted	(25)	25	–	–	–
Balance, March 31, 1988	517	4,021	32,737	(7,000)	30,275
Net income	–	–	9,486	–	9,486
Decrease in allowance for unrealized gains and losses on venture investments	–	–	–	500	500
Share transactions (Note 8):					
Issued	105	–	–	–	105
Repurchased	(33)	(102)	(90)	–	(225)
Converted	(139)	139	–	–	–
Balance, March 31, 1989	$ 450	$4,058	$42,133	$(6,500)	$40,141

1. **Summary of significant accounting policies:**
   (a) Marketable securities—
   Marketable securities maturing within one year are recorded at the lower of cost or market value.

   Marketable securities maturing after one year are recorded at cost unless there has been a permanent impairment in value. A loss associated with a permanent impairment would be reflected in the statement of income.

   (b) Venture investments—
   Venture investments having quoted market values and which are actively traded are recorded at values based on the quoted market prices at the balance sheet date.

   Venture investments not having quoted market values are recorded at directors' estimates of fair value. Fair value is defined as the expected realization if venture investments were disposed of in an orderly distribution over a reasonable period of time.

   Realized gains or losses on disposition of venture investments, together with losses incurred when the value of investments has been permanently impaired, are recorded in the statement of income. Unrealized gains or losses in the value of investments, net of applicable interest on the Province of Alberta loan and income taxes, are reflected as a separate element in the statement of changes in shareholders' equity.

   The valuation procedure includes preparation by management, on a quarterly basis, of a written summary of the status of each venture investment. The Audit Committee reviews each investment to determine its carrying value, and the Board of Directors approves the final valuation. The valuation process includes inherent uncertainties and the values determined might differ from values that would have been obtained had a ready market existed for disposing of the investments.

   (c) Depreciation—

   Fixed assets are depreciated over their estimated useful lives as follows:

   Furniture, fixtures and equipment—declining balance basis at 20% per annum.

   Leasehold improvements—straight-line basis over the term of the lease.

   Computer equipment—straight-line basis over 5 years.

2. **Accounts receivable:**

	1989	1988
	(Thousands)	
Interest and dividends receivable from:		
Marketable securities maturing within one year	$1,204	$1,575
Marketable securities maturing after one year	2,999	2,803
Venture investments	274	429
Other	270	190
	$4,747	$4,997

3. **Marketable securities:**

	1989		1988	
	(Thousands)			
	Cost	Market Value	Cost	Market Value
Maturing within one year—				
Government of Canada securities	$ 33,715	$ 33,663	$ 11,153	$ 11,306
Province of Alberta securities	48,950	48,950	65,445	65,445
Preferred shares	4,059	4,010	–	–
	$ 86,724	$ 86,623	$ 76,598	$ 76,751
Maturing after one year—				
Government of Canada securities	$ 49,193	$ 47,808	$ 48,128	$ 48,980
Province of Alberta securities	7,822	7,542	298	298
Preferred shares	73,748	73,680	77,215	78,674
	$130,763	$129,030	$125,641	$127,952

4. **Venture investments:**

Venture investments are held in the following form:

	1989	1988
	(Thousands)	
Preferred shares	$42,247	$49,023
Common shares	29,961	24,130
Loans	5,377	3,777
	77,585	76,930
Allowance for net unrealized losses	(6,500)	(7,000)
	$71,085	$69,930

During the year, venture investments increased as follows:

	1989	1988
	(Thousands)	
Venture investments, net of return of capital	$37,210	$18,131
Dispositions, at cost	(27,708)	–
Permanent impairment of value	(8,847)	–
Decrease in allowance for net unrealized losses	500	988
	$ 1,155	$19,119

An amount of $714,700 was placed in escrow on the disposition of a venture investment. The escrow conditions remain in effect until October, 1990. The amount that will be received by Vencap cannot be determined at this time and has not been included in the proceeds on disposition in 1989.

5. **Other assets:**

	1989	1988
	(Thousands)	
Fixed assets, at cost less accumulated depreciation	$ 701	$ 472
Employee share purchase loans	450	545
	$1,151	$1,017

At March 31, 1989, the company had provided interest-free loans of $450,475 to employees in connection with their purchase of Class B preferred shares. The loans are secured by demand promissory notes and the Class B preferred shares, and are repayable at the earliest of demand by Vencap, conversion into common shares, or ten years from the date of issue.

6. **Convertible debentures:**

The convertible debentures, due July 2, 1998, bear interest at 12% per annum payable semi-annually on the second day of January and July in each year. The debentures are convertible at the option of the holders into common shares at any time to July 2, 1991 at a conversion price of $2.50 per common share, and at any time thereafter to July 2, 1998 at a conversion price of $4.00 per common share.

If the debentures were all converted, the company would be required to issue up to 16,000,000 additional common shares.

7. **Province of Alberta loan:**

The Province of Alberta loan is to be repaid in instalments of $1,000 each year through to 2002 and $15,000,000 in each of the years 2003 to 2012 inclusive, with the balance due in 2013. Interest is calculated as a percentage of the company's pre-tax income, defined as income before deducting income taxes, and excluding interest on the Province of Alberta loan and interest on any debt subordinated to the Province of Alberta loan. Interest continues to be payable from 2013 to 2033 at the rate of 10% of pre-tax income, as defined above.

The loan is secured by a debenture which provides for a fixed charge on securities owned by the company having an aggregate book value of $175,000,000. The debenture also provides for a floating charge on all the company's assets and an assignment of receivables.

The Province of Alberta has an option to purchase up to 4,000,000 Special Shares at a price of $1.00 per share. The Special Shares, if issued, would have 20% of the total number of votes attaching to all shares of the company.

8. **Share capital:**

	1989	1988
	(Thousands)	
Authorized—		
Unlimited number of Class A preferred shares		
Unlimited number of Class B preferred shares		
Unlimited number of Special Shares		
Unlimited number of common shares		
Issued—		
32,000 Class B preferred shares (1988—40,500)	$ 450	$ 517
4,044,600 common shares (1988—4,010,200)	4,058	4,021
	$4,508	$4,538

The company has designated 50,000 Class B preferred shares—Series 1 as non-voting Key Employee Shares. Each Key Employee Share can be converted into 10 common shares and is entitled to receive dividends equal to ten times the amount of cash dividends declared on each common share.

During the year ended March 31, 1989, 7,500 Class B preferred shares—Series 1 were issued for $105,175 in cash, 2,400 preferred shares were returned to treasury, and 13,600 preferred shares were converted into 136,000 common shares at an average price of $1.02 per share. During the year ended March 31, 1989, the company repurchased 101,600 of its common shares in the open market at a cost of $191,317.

9. **Income taxes:**

The provision for income taxes is lower than the amount computed by applying the combined federal and provincial income tax rate to income before income taxes. The differences are as follows:

	1989	1988
	(Thousands)	
Income before income taxes	$10,864	$7,160
Combined federal and provincial income tax rate	45.64%	51.56%
Computed provision for income taxes	$ 4,958	$3,691
Increase (decrease) in income taxes resulting from:		
Non-taxable dividend income	(4,788)	(4,855)
Items charged to operations not deductible for tax purposes	4,038	—
Items credited to operations taxed at less than full rates	(2,893)	(44)
Other	63	433
Provision for (recovery of) income taxes	$ 1,378	$ (775)

10. **Net asset value and earnings per common share:**

The calculations of basic net asset value per share and basic earnings per share are based on the weighted average number of common and Class B preferred shares outstanding during the year. The weighted average number of shares during 1989 was 4,400,147 shares (1988—4,415,200 shares).

Net asset value per share and earnings per share prepared on a fully diluted basis are calculated as though all outstanding share options and convertible debentures had been exercised or converted on the first day of the year. A total of 24,364,600 shares would have been outstanding at March 31, 1989 (1988—24,415,200 shares) had all options been exercised and debentures converted.

11. **Commitments:**

The company is committed under operating leases for rental of office space. The commitment for annual lease payments for each of the next five fiscal years is as follows:

1990	$139,000
1991	148,000
1992	163,000
1993	186,000
1994	163,000

12. **Comparative figures:**

Certain of the prior year's accounts have been reclassified to conform with the presentation adopted in 1989.

CORPORATE DIRECTORY

Vencap Equities Alberta Ltd.

1980, 10180 - 101 Street
Edmonton, Alberta
T5J 3S4
Telephone: (403) 420-1171
Facsimile: (403) 429-2451

2000, 800 - 5 Avenue S.W.
Calgary, Alberta
T2P 3T6
Telephone: (403) 237-8101
Facsimile: (403) 264-0324

Board of Directors

John E. Barry
President,
JEB Investments Ltd.

Donald A. Carlson
Chairman,
Vencap Equities Alberta Ltd.

J. Gregory Greenough
President,
Maclab Enterprises

Peter L.P. Macdonnell
Partner,
Milner & Steer Barristers & Solicitors

J.H. (Jack) Nodwell
President,
Canadian Foremost Ltd.

Daryl K. Seaman
Chairman,
Bow Valley Industries Ltd.

R.A. (Sandy) Slator
President and Chief Executive Officer,
Vencap Equities Alberta Ltd.

Fred Sparrow
Retired Chairman and Chief Executive Officer,
Bank of Alberta

Donald J. Taylor
President,
Engineered Air

G. Norman Wildgoose
Retired Managing Partner,
Deloitte, Haskins + Sells

John D. Wood
President and Chief Executive Officer,
Canadian Utilities Limited

Committees

Executive:
Donald A. Carlson, Chairman
Peter L.P. Macdonnell
R.A. (Sandy) Slator
Donald J. Taylor
John D. Wood

Audit:
G. Norman Wildgoose, Chairman
John E. Barry
J. Gregory Greenough

Human Resources & Compensation:
John D. Wood, Chairman
J. Gregory Greenough
Fred Sparrow
G. Norman Wildgoose

Officers of the Corporation

Donald A. Carlson
Chairman of the Board

R.A. (Sandy) Slator
President and Chief Executive Officer

Ian T. Morris
Chief Financial Officer and Secretary

Investment Associates

Oleh S. Hnatiuk
F. Woody Kuehn
W.R. (Bill) McKenzie
Michael E. Phillips
David E. Stitt
Garth E. Thomas
Peter L. Vander Velden

M. Christine Stacey
Controller

Janet G. Goodwin
Corporate Communications

Shareholders' Information

Vencap Equities Alberta Ltd. is incorporated under the laws of the Province of Alberta. Common shares of the corporation are listed on The Alberta Stock Exchange. Fiscal year end is March 31.

Change of address and other shareholder information should be directed to Vencap's Registrar and Transfer Agent:

National Trust Company
Scotia Place
10072 Jasper Avenue
Edmonton, Alberta
T5J 1V8
Telephone: (403) 421-8666

Bankers:
Canadian Imperial Bank of Commerce

Lawyers:
Milner & Steer
Barristers & Solicitors

Annual General Meeting
11:00 a.m., Thursday, June 29, 1989
The Westin Hotel
320 - 4 Avenue S.W.
Calgary, Alberta

Design: Smith & Associates Ltd.

Printed in Canada